

Oversight of High-value Payment Systems

The Payments System Board oversees Australia's systemically important payment systems, most notably Australia's real-time gross settlement system, the Reserve Bank Information and Transfer System.

An important part of the Payments System Board's responsibility for the safety and stability of payment systems in Australia is the oversight of systemically important payment systems.⁸

To date, two payment systems have been identified by the Bank as systemically important: the Reserve Bank Information and Transfer System (RITS) and CLS Bank International (CLS). Together, these

systems account for the majority of payments settled by value (Table 4).

The Bank has also identified SWIFT as a provider of critical services to both RITS and CLS, since both systems depend on SWIFT's communications platform and other services to process payments and exchange information with their participants.

Table 4: Australian-dollar Payments
Gross daily averages, \$ billion^(a)

	2011/12	2012/13	2013/14	2014/15
Domestic				
RITS	168.0	157.8	162.7	167.8
<i>SWIFT payments (HVCS)</i>	<i>106.0</i>	<i>97.1</i>	<i>100.5</i>	<i>103.8</i>
<i>Debt settlements (Austraclear)^(b)</i>	<i>50.0</i>	<i>48.5</i>	<i>50.3</i>	<i>52.0</i>
<i>RITS cash transfers</i>	<i>12.0</i>	<i>12.3</i>	<i>11.9</i>	<i>12.0</i>
Retail payment systems	59.1	59.7	61.9	62.5
Equity settlements ^(c)	4.7	4.2	4.0	4.4
Property settlements (PEXA)				0.03 ^(d)
International				
CLS	241.3	251.7	246.2	260.6

(a) Business days; includes payments between customers of the same financial institution

(b) Excludes intraday and open RBA repurchase agreements, and multilaterally netted interbank settlements arising from the retail payment systems and the equity market

(c) Gross value of equity trades

(d) Net double-sided value; includes data from 10 November 2014 to 30 June 2015; currently, only a small amount of property settlements by value occur in PEXA

Sources: ASX; CLS; RBA

⁸ This role is described in detail in RBA (2013) *Self-assessment of the Reserve Bank of Australia – Systemically Important Payment Systems*, available at <<http://www.rba.gov.au/payments-system/policy-framework/principles-fmi/assessments/systemically-important/2013/pdf/2013-self-assess-sys-imp-pay-sys.pdf>>.

SWIFT also provides critical services to other financial market infrastructures (FMIs) and many other entities in the financial system.

Reserve Bank Information and Transfer System

RITS is primarily a real-time gross settlement system, which settles transactions on an individual basis in real time across Exchange Settlement Accounts (ESAs) held at the Reserve Bank.⁹ RITS is owned and operated by the Bank.

Assessment against international standards

Day-to-day operations, liaison with participants, and the ongoing development of RITS are the responsibility of the Reserve Bank's Payments Settlements Department. Since it is not operated as a separate legal entity, the management and operation of RITS fall under the governance structure of the Bank and are therefore subject to its normal oversight, decision-making and audit processes. RITS is also subject to oversight by the Bank's Payments Policy Department, within the policy framework for which the Payments System Board has responsibility. A key part of the Board's oversight of RITS is the annual assessment of RITS against the *Principles for Financial Market Infrastructures* (PFMIs). The PFMIs were developed by the Committee on Payment and Settlement Systems (CPSS; now called the Committee on Payments and Market Infrastructures (CPMI)) and the International Organization of Securities Commissions (IOSCO) and published in 2012.

In its *2014 Assessment of RITS against the PFMIs* (2014 Assessment), published in December 2014, the Bank concluded that RITS observed all of the relevant principles.¹⁰ The assessment noted a

number of changes that had occurred, consistent with commitments in the previous assessment to ensure that RITS operations continued to meet international best practice. These developments included the implementation of recommendations to improve the Bank's ability to identify and respond to system problems and a renewal of core elements of the technological infrastructure that supports RITS. Together, these changes have enhanced the performance and resilience of RITS and reduced the complexity of system maintenance. It was also noted that the Bank had finalised enhancements to its organisation-wide project and change-management practices.

The 2014 Assessment also made a number of recommendations consistent with the Bank's ongoing effort to ensure that the operation of RITS will continue to meet international best practice in the future. Two of these recommendations reiterate commitments to a comprehensive review of the RITS Regulations and continued monitoring of RITS participants' compliance with the new Business Continuity Standards. These commitments were previously made in the 2013 Assessment and work was ongoing as of the 2014 Assessment.

The 2014 Assessment also made two new recommendations in the area of operational risk:

- Recognising that cyber-related issues are emerging as a growing systemic threat, it was recommended that the Bank keep under continued review its approach to cyber security, and in particular its mechanisms for prevention and detection, and its plans to recover from a cyber-related incident.
- Furthermore, given recent international developments in the technology that supports business continuity arrangements, it was also recommended that the Bank examine the benefits, challenges and costs of implementing a range of measures that could further enhance the resilience of RITS and facilitate timely recovery.

⁹ The Board has responsibility for the Bank's policy on access to ESAs. This policy is available at <<http://www.rba.gov.au/payments-system/esa/>>.

¹⁰ The *2014 Assessment of the Reserve Bank Information and Transfer System* is available at <<http://www.rba.gov.au/payments-system/rits/self-assessments/2014/index.html>>.

Fast Settlement Service

The Board maintains a close interest in material changes to the operational arrangements for RITS. As discussed in the chapter on 'Strategic Review of Innovation', the Fast Settlement Service (FSS) is being developed by the Reserve Bank to facilitate the final and irrevocable settlement of each individual payment arising in the New Payments Platform, 24 hours a day, 7 days a week.

The FSS will be a RITS service, owned and operated by the Bank. Accordingly, it is expected that direct users of the FSS will be RITS participants and as a result bound by the RITS Regulations. Although it is planned that the FSS will rely on part of the existing RITS infrastructure, the systems are expected to operate on separate technological platforms. This will allow the RITS core settlement service and the FSS to process and settle payments independently of one another.

Recognising the expected importance of the FSS in the payments system, the 2014 Assessment noted that it was being designed to meet standards in relation to availability, capacity and security that are equivalent to those of the core RITS service. Consequently, once the FSS is launched it is the Bank's intention that, to the extent that the FSS provided critical services, these would be assessed against the PFMI as part of the annual assessment of RITS.

Property settlements

An important operational development in 2014/15 was the successful implementation of functionality in RITS to receive and settle payment instructions originating from a new national electronic conveyancing platform. This platform, which is owned and operated by Property Exchange Australia Ltd (PEXA), allows land registries, financial institutions, solicitors and conveyancers, and other industry participants to process and settle transactions in an efficient manner. Since property settlements tend to involve a number of linked transactions, these transactions are submitted by

PEXA to RITS as a batch for simultaneous settlement on a multilateral net basis. To minimise the interdependence between batches, the settlement of each batch is independent of other property settlement batches. Nonetheless, where there is interdependence between batches (e.g. if there is a chain of property settlements), PEXA manages the order and timing of these property settlements accordingly.

PEXA is available to use in New South Wales, Victoria and Western Australia and (for certain types of transactions) Queensland. The dates that PEXA will be released in the remaining states and territories are yet to be confirmed. The use of PEXA has grown gradually since its launch in November 2014, with the daily net value of transactions settled in RITS increasing to around \$62 million in June 2015.

CLS Bank International

CLS is an international payment system that links the settlement of the two legs of a foreign exchange transaction. By operating such a payment-versus-payment settlement mechanism, CLS allows participants to mitigate foreign exchange settlement risk – the risk that one counterparty to a transaction settles its obligation in one currency, but the other counterparty does not settle its obligation in the other currency – in the 17 currencies that it settles.

CLS is regulated, supervised and overseen by the US Federal Reserve, in cooperation with an Oversight Committee that includes the Reserve Bank and the other central banks that issue CLS-settled currencies. Through this forum, the Bank contributes to the assessment of the ongoing adequacy and robustness of CLS's risk controls. The Bank also uses this forum to oversee how well CLS meets relevant international principles.

The Oversight Committee has monitored closely a number of developments in CLS during 2014/15. In December, CLS published a PFMI Disclosure Framework, which describes CLS's approach

to observing relevant Principles. CLS has also continued to make progress in expanding its service offerings. In particular, CLS has continued to make progress on plans to settle payments related to the initial and final leg of cross currency swaps, develop a settlement solution for centrally cleared foreign exchange products, and expand the range of currencies it settles. Regarding the latter, over the past 12 months CLS's primary focus has been on the Hungarian forint, which it intends to begin settling in November, subject to the relevant regulatory approvals. CLS has also announced it will collaborate with a third-party partner – TriOptima – to develop a compression service for FX forwards. It has also continued to develop enhancements to its framework for the management of liquidity risk.

SWIFT

While SWIFT is not a payment system, it provides critical communications services to both RITS and CLS, as well as other FMIs and market participants in Australia and overseas. Consequently, the Reserve Bank participates in international cooperative arrangements that facilitate oversight of SWIFT.

SWIFT is primarily overseen by the SWIFT Oversight Group (OG), of which the G10 central banks are members. Since SWIFT is incorporated in Belgium, the OG is chaired by the National Bank of Belgium. The Reserve Bank is a member of the SWIFT Oversight Forum, a separate group which facilitates information-sharing and dialogue on oversight matters among a broader set of central banks and offers these central banks an opportunity to provide input into the setting of the OG's oversight priorities. Oversight of SWIFT is supported by a set of standards – the High-level Expectations – which are consistent with standards for critical service providers in the PFMI.

During 2014/15, the OG closely monitored developments in SWIFT. As in the previous year, one of the OG's main focuses was SWIFT's project to renew its core messaging application, FIN. This project is expected to extend into 2016. The OG also monitored closely SWIFT's framework to mitigate cyber attacks.